Special Article
Peace, Health, and the National Purpose: Health Policy and the Cold War

DANIEL M. FOX, PHD*

The two largest sectors of the American economy, health and defense, are in disarray. These sectors generate about a third of our economic activity and employ at least a quarter of the workforce. Both of these sectors have redundant equipment and many potentially unemployed people.

The two largest sectors of the economy are in disarray because the problems they have addressed for more than half a century are being redefined. The Cold War is over. Sometime in this decade the even longer struggle to legislate universal health insurance coverage may end. Just as the end of the Cold War did not create universal peace, health reform is unlikely to cause vast improvement in the health of Americans.

This article explores assumptions that have guided American policy for both peace and health for half a century. First I assess three goals or purposes of that policy. These goals are power, abundance and security. Then I explore two mechanisms for achieving these purposes: subsidy and accountability. The three goals establish the broad outlines of policy, the substance of which is determined by negotiations among leaders of government and the private sector about subsidy and accountability.

---

* Dr. Fox is President of the Milbank Memorial Fund, 1 East 75th Street, New York, NY 10021.

Power

Power is the most important of the three goals. In the years after the Second World War, power, as American policy makers defined it, was not hegemony; not, that is, ruling, subduing and exploiting others. Americans had fought a world war against nations that sought hegemonic power. Our leaders pursued a different goal.

They redefined power as command over resources and over the means to expand them. Since the 1940s, power has meant the results of mobilizing material and human capital. Power became the capacity to build factories, weapons and hospitals; to train, among others, entrepreneurs, engineers, endocrinologists and ecologists.

In the generation after the Second World War, Americans competed with the Soviet Union for power. As the leader of the bloc that called itself the Free World, the United States sought a preponderance of power. By preponderance American leaders meant the ability to mobilize more material and human capital than any other country, whether in our bloc of states or in the one dominated by Russia.[1]

The central problem of American government in that generation was assuring this preponderance of power. Preponderance had to be ensured simultaneously in instruments of war and in the production of consumer goods and services.

The United States also sought preponderance in research and its applications. National power would be enhanced if we conducted more research and applied its results, whether the applications were for defense or for preventing and treating disease.

Power, in sum, meant America's capacity to make, to do, to kill, to diagnose and to cure. Most Americans, or at least persons who held prominent positions in the public and private sectors, believed that we needed such preponderance in order to survive as a nation.

Abundance

The United States had a preponderance of power for more than half a century because its people had created an economy of abundance. For the first time in history a society seemed to have discovered how to produce enough goods and services to guaran-

tee everyone a minimally decent standard of nutrition, housing, health care and recreation.

Throughout history, scarcity had been the norm of human life. A majority of people everywhere had been ill-fed, ill-housed, ill-clothed or just ill. Now it was possible to conceive of a society in which there would be enough prosperity at home to export resources abroad.

Maintaining this economy of abundance required a consensus on limits. If people could restrain their desire for more of every good or service they desired, resources could be distributed according to ethical standards that were mutually agreed on. Public policy, under this definition of restrained abundance, should simultaneously stimulate production and set limits on consumption.[2]

Two definitions of scarcity were in common usage from the 1930s to the 1960s, but only one of them has survived. The definition that sought policy to balance abundance and restraint has perished, a casualty of doubts about the sustainability of economic growth. According to this now-obsolete definition, scarcity was relative; scarce resources could be used to create functional abundance by combining economic growth with moral and social restraints on rampant greed.

The definition of scarcity that has survived is familiar to everyone who follows current debates about rationing in medicine and other sectors. In this definition, scarcity is a constant of the human condition. Consumers exert inexorable pressure against a scarce supply of goods and services. Abundance is unattainable, even as an equilibrium between desire and restraint that is regulated by policy and social values.

Nevertheless, a belief that relative abundance was achievable dominated American politics after the Second World War. Americans made defense and health policy on the assumption that the economy could produce appropriate quantities of both guns and butter. Political leaders and the media assured Americans that they could have both bombs and vaccines. Policy assumed that sustained economic growth would make possible transfer payments

that placed a floor of entitlements beneath persons who were poor, sick, disabled and elderly.

There is a great deal of documentation for this pervasive belief in the possibility of abundance, just as there is for the related goal of achieving a preponderance of power. Here is one notable example of this linkage. The most famous characterization of American history in those years was "America's Century," a phrase invented in 1940 by Henry Luce, the founder of *Time* and *Life*. In an editorial advocating United States intervention in the war in Europe, Luce wrote that "Our world for the first time in history is capable of producing all the material needs of the entire human family . . . if [there is to be] any nobility of health and vigor [it] must be to a significant degree an American century." Moreover, "We must . . . be the Good Samaritans of the entire world," sending out "engineers, scientists, doctors, movie men, makers of entertainment, developers of airlines, builders of roads, teachers, educators." [3]

Belief in abundance as an achievable goal climaxed in the mid-1960s. Lyndon Johnson assured the country that, without higher taxes, wars could be waged simultaneously on poverty and in Viet Nam; Medicare and Medicaid could be financed; the number of physicians and other health professionals could be increased; social security payments could rise each year with the inflation rate; and more public funds could be spent for research on space and biomedicine. Johnson spoke for many people who assumed that abundance would fuel our preponderance of power in the world.

Many people were dubious about the politics of guns and butter, of missiles and medicines. But most doubters, at least among decision makers and in the media, did not worry in public about the end of American abundance until the mid-1970s. Since then, much has been written about limits to abundance as a result of the combined impact of recessions, oil crises, the proliferation of nuclear and conventional arms, and increased spending for health care and social security.[4]

The concept of abundance, like the concept of a preponderance

of power, nevertheless continued to guide our public life. In the 1980s, a majority of voters ratified the belief that the country could afford to defend the free world while increasing entitlement programs and consumer spending. They ratified it, for example, by reelecting a president who said that income taxes could be reduced and increased public spending would be financed by increasing public debt which would be paid by the dividends of an abundant economy. When Ronald Reagan, seeking reelection a decade ago, proclaimed "morning in America," he was defining abundance without the restraints that made possible a relative definition of scarcity.

Security

Security has been the third goal of policy in the past half century; a purpose beyond the achievement of power and abundance. Many people who worked in foreign policy, the military, medicine, and science, for example, dedicated their working lives to achieving power for themselves, their professions, their employers and the country. Similarly, many entrepreneurs who created and sold goods and services identified their quest for personal affluence with a national economy of abundance. Security, in contrast, addressed through collective action the shared risks of death, suffering and poverty.

The concept of security began to dominate American political language in the 1930s. Social Security and Farm Security were the official names of early New Deal programs. By the end of the 1930s a new Federal Security Agency, the predecessor of the current Department of Health and Human Services, was administering subsidies for public health and conducting medical research, managing pensions and welfare payments, and planning a comprehensive health care system for a not-too-distant future.

Security, as most leaders of the public and private sectors defined it during the thirties, did not mean a government-run, socialized security. To most leaders in Washington, the states and

the private sector, security required the collaboration of government and business; a mixed economy, in the jargon of the time.[5]

Before the Second World War, the word security usually described policy to prevent poverty due to unemployment, low wages, aging and sickness. Americans' income almost vanished in old age; they struggled to pay for hospital care; many people in the working and middle classes could not afford decent housing.

The meaning of security in policy changed after 1941. The definition now included national security against external enemies. During the war, the national security state became more important than the social security state.[6]

The concept of security permeated both defense and domestic policy because the political institutions of the country addressed both of them in the same way. War (soon called defense) policy relied on public and private partnership. Domestic (or employment, health and welfare) policy similarly relied on public and private partnerships.

Many documents exemplify the broadened definition of security policy. A compelling example is Franklin Roosevelt's State of the Union message in 1944. Our "one supreme objective for the future," he said, is "security . . . physical security [that is] safety from attacks by aggressors . . . economic security, social security, moral security." [6(p43)]

By 1945, science had become a central concern of the public and private interests that made security policy. Before World War II, science was a subordinate issue for public policy; it was subsidized mainly by foundations and industry. Now science, whether it was physical, chemical or biomedical, basic or applied, became essential to securing a preponderance of power in the world and creating abundance at home for export abroad.

In 1945, for example, the head of the wartime scientific agency, the Office of Scientific Research and Development, wrote a famous report called *Science: The Endless Frontier.* Dr. Vannevar Bush said that "without scientific progress no amount of achievement in other directions can insure our health, prosperity and security as a nation in the modern world . . . [and maintain] our liberties against

tyranny." [7] Acknowledging receipt of the report, the director of what was then the Bureau of the Budget (now the OMB) told Bush that he wanted to rename it *Science: The Endless Appropriation.* As he predicted, in the decade after 1945 expenditures for science by government and industry grew at an unprecedented rate.[8]

In summary, what might be called a science-intensive national and social security state now managed the risks of military attack, catastrophic illness and economic hardship. The three goals of policy—power, abundance and security—shaped both the calculation of acceptable risks and what the nation was willing to do to reduce them:

- According to the goal of preponderance of power, the nation was at the lowest risk of attack from abroad if its economy, military capacity, health, education and welfare were second to none.
- According to the goal of abundance, a mixed economy, in which fiscal and social policy protected a productive private sector against fluctuating business cycles and their consequences, reduced risks of poverty and misery.
- According to the goal of security, the public and private sectors should collaborate to ensure the lowest risk of external attack and internal misery and dislocation that was consistent with the maintenance of a preponderance of power and relative abundance.

Expenditures for Peace and Health

Implementing these goals required a great deal of money. In 1929, health expenditures accounted for 3.5% of our national product. Defense expenditures were so low that the Department of Commerce does not count them in its publications of historical statistics. By 1950, health expenditures were 4.5% of gross national product. Defense expenditures were larger, but I am uncertain about how to estimate them. Defense expenditures were greater than those for health until the mid-1970s, when health costs surged ahead, fueled by Medicare and Medicaid. The sum of defense and health, with the exception of 1980, rose steadily over

a generation. By 1990, the two together accounted for 18% of the direct expenditures in our economy.[9]

Assume, as many econometricians tell us we should, that every dollar of direct expenditure has a multiplier in local and regional economies of about $1.75. Then it is reasonable to estimate that defense and health generate more than a third of the economic activity in the nation. Now add to this the economic effects of social security and other welfare-state expenditures. The conclusion is obvious: an even larger percentage of the American economy is entirely the result of public policy.

The science-intensive national and social security state has, therefore, been the principal activity of Americans for almost half a century. Some people have shortened this label to the War Welfare State.[10]

What useful purpose is served by combining defense and health care in the same analysis? To demonstrate the practicality of this analysis, I now discuss two mechanisms of public life that implemented the goals of national policy. These mechanisms, subsidies and accountability, have been the principal subjects of the continuous negotiations that determine the risks that leaders of the nation and then voters agree to accept as tolerable.

Subsidies

For half a century, large expenditures have been made for defense and health. Subsidies for health and defense have emphasized the development, testing and deployment of costly and esoteric technologies. Subsidies have also made defense and health labor-intensive as well as high-technology activities.

Defense and health are labor intensive for two reasons. The first is that legislators and the highest officials in the executive branch in the states and the federal government trusted, for a long time, the claims about the workforce made by professionals in defense and health. National security required more soldiers, sailors and aviators. Security against illness required more physicians and other health professionals.

Here is an example of the convergence of defense and health policy. On June 8, 1945, a month after VE Day and two months before the end of the war against Japan, President Truman told his budget director that policy should increase the "supply of doctors . . . it must be solved . . . we will have a million or so veterans coming back . . . we have an inadequate supply of doctors to take care of them." [11]

For several decades almost everyone in power in this country agreed that we needed both a larger defense establishment and more health professionals. Anybody who disagreed about either need was considered to be in error. Anyone who disagreed about both of them was potentially a subversive.

The defense and health sectors were simultaneously intensive in both labor and technology for a second reason: the mechanism by which most of the subsidy was paid for half a century. In defense this mechanism was called cost plus fixed fee (CPFF). In health care it was called cost-based reimbursement. Under both CPFF and cost reimbursement, the state was an enabler first and a regulator second. Public officials assumed most defense contractors, hospitals and physicians acted in the public interest: that the costs that organizations and individuals claimed to have incurred were customarily reasonable and necessary. Negotiations were, of course, necessary to prevent greed; audits protected against fraud. However, the burden of proof for greed or fraud was on the payers in both the defense and health sectors.

Why was the state so generous? In general, the politics of subsidy in each sector assumed the validity and popularity of the three national goals of power, abundance and security. For half a century, from the 1940s to the 1990s, most of the officials of government, business and labor organizations who negotiated subsidies that were paid with direct taxes or tax expenditures (that is, tax collections foregone because of exemptions and exclusions) agreed that spending for both defense and health care had great value. Increasing either defense or health benefits enhanced the nation's preponderant power, increased its abundance and promoted everyone's security.

This agreement has been changing, in both defense and health affairs. The recession of the early 1990s was more intense in California, where defense was the largest employer, as a result of the breakdown of consensus about subsidy. Similarly, hospitals are responding to pressure from payers to consolidate and shed employees. Graduate medical education, a protected export industry like armaments, may lose considerable subsidy as a result of health reform during the Clinton Administration.

About 40% fewer people are employed in defense production in the 1990s than in the 1960s. Consider the economic consequences of reducing employment in the health sector by two out of five jobs.

The principle of preponderant power is undergoing enormous change. Military bases are closing despite local anguish. Congress canceled the supercollider project in 1993, unimpressed by the traditional claim that the physics of today anticipates the weapons systems of tomorrow.

The principle of abundance is also in flux. Opponents of the North American Free Trade Treaty in 1993 insisted that jobs not protected by tariff policy are likely to disappear forever. Ordinary Americans are saving less money than at any time in this century, a sign that current consumption is being accorded more importance than future abundance.

The principle of security has been compromised. Americans have traditionally been critical of all entitlement programs except those for which they are eligible. Now even liberal advocates of entitlements are in disarray. Experts of all political persuasions have argued that public spending for welfare-state entitlements exacerbated the recession of the early 1990s in northern Europe. In the United States, support is increasing for means-testing some portion of Social Security; in Europe, for replacing universal with targeted health care, child welfare, and disability subsidies. President Clinton's description of health care as a "capped entitlement" is a euphemism for limits and means tests.

Accountability

By according high priority to science and technology, American policy for defense and health created three related problems of accountability. These problems are managing experts in the public interest, ascertaining the public interest in maintaining secrecy, and accommodating dissent.

The management of experts raises such questions as: Who will adjudicate competing claims among them? What criteria will govern priorities for research and development? How will failure be disentangled from fraud? To what extent will experts determine decisions about investment in technologies they have helped to develop—for example, the balance of nuclear and conventional weapons or of inpatient and ambulatory services?

A second aspect of accountability is secrecy, which in health care is called confidentiality. Which of the activities that are subsidized by the state in the name of power, abundance and security should be open to public scrutiny? When does disclosure of information threaten the security of the state, the well-being of patients, and the reputations of professionals?

A third aspect of accountability are the rights and opportunities accorded to persons who challenge the *status quo* on the basis of alternative ideas and information. How does defense policy take account of proponents of disarmament and arms control? How does the bioethics movement effect policies governing informed consent and withholding treatment from terminally ill patients?

Both defense and health policy have a history of conflicts between proponents of accountability and advocates of the privileges of experts and the virtues of secrecy. Dissenters' morals and motives have frequently been attacked in both sectors. Since the 1940s, when the atomic bomb and penicillin became twin symbols of the American Century, leaders in public and private life have placed vast trust in experts and accepted their views on priority-setting, secrecy and dissenters. During the buildup in both the defense and the health sectors from the 1940s to the late 1960s,

people who led government and industry generally accepted the advice they received from experts who said that more was better.

An oversimple, but not inaccurate, account of recent history would emphasize the increasing imposition of accountability on both the defense and health care sectors since the 1970s. If policy had required more accountability sooner, Soviet weakness might have been perceived earlier, leading to less expenditure on weapons and fewer military adventures. In health care, earlier emphasis on accountability might have led to more-effective limits on the proliferation of hospital and specialist services.

Conclusions

The past has a more important lesson for the present than these might-have-beens of history. The lesson is that the sectors into which we divide politics and the economy for analytical convenience are not segregated. Related principles govern policy and politics in every sector. These principles operate across sectors because the same elected leaders make major decisions about what and how much to tax and spend, and the same voters evaluate them.

Peace and health are continuously redefined. Leaders periodically declare triumphs in wars against other countries and pathogens. Our policies are not about peace or health but rather about what our national purposes ought to be and how we conduct the politics that modifies those purposes even as we try to act on them.

Acknowledgment

This article is adapted from the first Iago Galdston Memorial Lecture, given at the New York Academy of Medicine on November 16, 1993. The advertised title of the lecture was "How Triumphs Happen: Lessons for Medicine from the Cold War."

Dr. Galdston practiced in New York City for seven decades and was an official of the Academy from the 1920s to the 1960s. During these years he was associated with activities to improve commu-

nication between the medical profession and the public and with studies of the changing role of medicine in society.

References

1. Leffler MP. *A Preponderance of Power: National Security, the Truman Years and the Cold War.* Palo Alto, Calif: Stanford University Press; 1992.
2. Fox DM. *The Discovery of Abundance: Simon N. Patten and the Transformation of Social Theory.* Ithaca, NY: Cornell University Press; 1967.
3. Luce H. *The American Century.* New York, NY: Farrar and Rinehart; 1941:30–35.
4. Fox DM. *Power and Illness: The Failure and Future of American Health Policy.* Berkeley, Calif: University of California Press; 1993; chap 4.
5. Brinkley A. The New Deal and the idea of the state. In: Fraser S. and Gerstle G., eds. *The Rise and Fall of the New Deal Order, 1930–1980.* Princeton, NJ: Princeton University Press; 1989:85–121.
6. McLachlan G. *Nuclear Weapons and the Formation of National Security.* Berkeley, Calif: University of California Department of Sociology; 1988. Unpublished doctoral dissertation.
7. Bush V. *Science: The Endless Frontier.* Washington, DC: U.S. Government Printing Office; 1945, quoted most recently in DeBakey M.E. Medical Centers of Excellence and Health Reform. *Science.* 1993;262:523.
8. Fox DM. The politics of the NIH Extramural Program, 1937–1950. *Journal of the History of Medicine and Allied Sciences.* 1987;42:447–466.
9. U.S. Department of Commerce. *Historical Statistics of the U.S.: Colonial Times to 1970.* Washington, DC: U.S. Government Printing Office; 1975: vol. 1, 74; U.S. Department of Commerce, Economic and Statistics Administration. *Statistical Abstract of the US 1992.* Washington, DC: U.S. Government Printing Office; 1993:97–134, 336–349.
10. Markusen A, Yudkin J. *Dismantling the Cold War Economy.* New York, NY: Basic Books; 1992.
11. Smith HD. Diary of conference with the President, Harold D. Smith Papers. Hyde Park, NY: The Roosevelt Library; manuscript, Box 3.